



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAWRENCE COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAWRENCE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Lawrence County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$314,261 from the prior fiscal year, resulting in a cash surplus of \$1,372,789 as of June 30, 2001. Revenues increased by \$497,969 from the prior year and disbursements increased by \$347,446.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$350,000. Future collections of \$446,061 are needed over the next seven years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$717,200 as of June 30, 2001. Future principal and interest payments of \$883,435 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David L. Compton, Lawrence County Judge/Executive

Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Lawrence County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Lawrence County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lawrence County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Lawrence County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David L. Compton, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2002, on our consideration of Lawrence County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lawrence County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 21, 2002

LAWRENCE COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

David L. Compton	County Judge/Executive
Stephen Sparks	Magistrate
Gary Dale Nelson	Magistrate
Orville Rowe	Magistrate
Roger Jordan	Magistrate

Other Elected Officials:

Kimberly Compton	County Attorney
Farris T. Bush	Jailer
Gallie Isaac, Jr.	County Clerk
Martha Kiser	Circuit Court Clerk
Bobby Workman	Sheriff
James Heston	Property Valuation Administrator
Lawrence Michael Wilson	Coroner

Appointed Personnel:

Sue K. Maynard	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LAWRENCE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	68,970	
Road and Bridge Fund:			
Cash		315,851	
Jail Fund:			
Cash		39	
Local Government Economic Assistance Fund:			
Cash		372,844	
Forestry Fund:			
Cash		25,570	
Payroll Revolving Account - Cash		<u>919</u>	\$ 784,193

Special Revenue Fund Type

Community Development Block Grant - Sewer Project Fund:			
Cash	\$	32,774	
Community Development Block Grant - Economic Development Fund:			
Cash		293,693	
Receivable (Note 4A)		94,362	
Due from Community Development Block Grant - Sewer Project Fund (Note 4B)		38,355	
E-911 Fund:			
Cash		164,590	
Sewer Fees Fund:			
Cash		40,200	
Cellular E-911 Fund:			
Cash		<u>58,002</u>	\$ 721,976

Debt Service Fund Type

Voted Courthouse Annex Bond Fund:			
Investments		<u>256</u>	
Total Assets	\$		1,506,425

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Other Resources

General Fund Type

Road and Bridge Fund:

Amounts to be Provided in Future Years for Capital Lease Principal Payments (Note 7)	\$ 717,200
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Special Revenue Fund Type

Community Development Block Grant - Sewer Project Fund:

Amounts to be Provided in Future Years for Kentucky Infrastructure Authority Loan Payments (Note 5B)	710,852
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Debt Service Fund Type

Voted Courthouse Annex Bond Fund:

Amounts to be Provided in Future Years for Bond Payments (Note 5A)	<u>349,744</u>
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Total Assets and Other Resources	<u><u>\$ 3,284,221</u></u>
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Liabilities and Fund Balances

Liabilities

General Fund Type

Road and Bridge Fund:

Kentucky Area Development Districts Capital Lease Financing Trust Agreement Principal (Note 7)	\$ 717,200
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Payroll Revolving Account	<u>919</u>	\$ 718,119
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Special Revenue Fund Type

Community Development Block Grant - Economic Development Fund:

Deferred Revenue (Note 4A)	\$ 94,362
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Community Development Block Grant - Sewer Project Fund:

Due to Community Development Block Grant - Economic Development Fund (Note 4B)	38,355	
Kentucky Infrastructure Authority Loan (Note 5B)	<u>710,852</u>	843,569

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

Debt Service Fund Types

Voted Courthouse Annex Bond Fund:		
Bond Principal Not Matured (Note 5A)	\$	350,000

Fund Balances

Reserved:

General Fund Type

Local Government Economic Assistance Fund	\$	372,844	
Forestry Fund		<u>25,570</u>	\$ 398,414

Special Revenue Fund Type

Community Development Block Grant - Sewer Project Fund	\$	32,774	
Community Development Block Grant - Economic Development Fund		293,693	
E-911 Fund		164,590	
Sewer Fees Fund		40,200	
Cellular E-911 Fund		<u>58,002</u>	589,259

Unreserved:

General Fund Type

General Fund	\$	68,970	
Road and Bridge Fund		315,851	
Jail Fund		<u>39</u>	<u>384,860</u>

Total Liabilities and Fund Balances			<u><u>\$ 3,284,221</u></u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LAWRENCE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,106,737	\$ 1,437,601	\$ 1,387,162	\$ 75,455
Other Financing Sources - Transfers In	498,121	105,000	75,000	181,200
Total Cash Receipts	<u>\$ 4,604,858</u>	<u>\$ 1,542,601</u>	<u>\$ 1,462,162</u>	<u>\$ 256,655</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,636,810	\$ 1,330,824	\$ 1,407,664	\$ 256,708
Other Financing Uses - Schedule of Other Expenditures	1,743			
Transfers Out	498,121	173,566	75,000	
Bonds:				
Principal Paid	127,100		87,100	
Interest Paid	26,823			
Total Cash Disbursements	<u>\$ 4,290,597</u>	<u>\$ 1,504,390</u>	<u>\$ 1,569,764</u>	<u>\$ 256,708</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 314,261	\$ 38,211	\$ (107,602)	\$ (53)
Cash Balance - July 1, 2000 *	<u>1,058,528</u>	<u>30,759</u>	<u>423,453</u>	<u>92</u>
Cash Balance - June 30, 2001	<u>\$ 1,372,789</u>	<u>\$ 68,970</u>	<u>\$ 315,851</u>	<u>\$ 39</u>

*General Fund and Community Development Block Grant - Sewer Project Fund prior year balances do not agree to prior year audit due to prior year checks voided in the current year.

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type		Special Revenue Fund Type			
Local Government Economic Assistance Fund	Forestry Fund	Community Development Block Grant - Sewer Project Fund	Community Development Block Grant - Economic Development Fund	E-911 Fund	Sewer Fees Fund
\$ 739,545	\$ 6,004	\$ 151,993	\$ 41,409	\$ 162,496	\$ 47,050
30,000		38,355			
\$ 769,545	\$ 6,004	\$ 190,348	\$ 41,409	\$ 162,496	\$ 47,050
\$ 248,424	\$ 3,532	\$ 165,606	\$ 100,232	\$ 109,258	\$ 14,562
211,200			38,355		
\$ 459,624	\$ 3,532	\$ 165,606	\$ 138,587	\$ 109,258	\$ 14,562
\$ 309,921	\$ 2,472	\$ 24,742	\$ (97,178)	\$ 53,238	\$ 32,488
62,923	23,098	8,032	390,871	111,352	7,712
\$ 372,844	\$ 25,570	\$ 32,774	\$ 293,693	\$ 164,590	\$ 40,200

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	Special Revenue Fund Type	Debt Service Fund Type
	Cellular E-911 Fund	Voted Courthouse Annex Bond Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 58,002	\$ 20
Other Financing Sources - Transfers In		68,566
Total Cash Receipts	<u>\$ 58,002</u>	<u>\$ 68,586</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$
Other Financing Uses - Schedule of Other Expenditures Transfers Out		1,743
Bonds:		
Principal Paid		40,000
Interest Paid		26,823
Total Cash Disbursements	<u>\$ 0</u>	<u>\$ 68,566</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 58,002	\$ 20
Cash Balance - July 1, 2000 *		236
Cash Balance - June 30, 2001	<u><u>\$ 58,002</u></u>	<u><u>\$ 256</u></u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lawrence County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Lawrence County Voted Courthouse Annex Bond Fund as part of the reporting entity.

The Lawrence County Voted Courthouse Annex Bond Fund (the Fund) was established by the Lawrence County Buildings Commission to provide for the permanent financing of costs of construction of an addition to and renovation of the existing Lawrence County Courthouse. The Lawrence County Buildings Commission was subsequently dissolved. However, the Fund still exists to provide debt service to the county. Therefore management must include the Fund as a component unit, and the Fund's financial activity has been blended with that of the Fiscal Court.

Additional - Lawrence County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lawrence County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lawrence County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lawrence County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), and the Forestry Fund.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Community Development Block Grant - Sewer Project Fund, Community Development Block Grant - Economic Development Fund, E-911 Fund, Sewer Fees Fund, and Cellular E-911 Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Voted Courthouse Annex Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Lawrence County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Receivables

- A. The county loaned \$400,000 to Lawrence County Properties on March 16, 1984, for the purpose of leasing the old Louisa Carpet Mill Properties. Terms of the agreement stipulate a 20 year repayment schedule at 2 percent interest. Lawrence County Properties is in substantial compliance with the terms of the agreement. As of June 30, 2001, principal balance due was \$94,362.
- B. The Community Development Block Grant - Economic Development Fund loaned \$38,355 to the Community Development Block Grant - Sewer Project Fund. Subsequently, on March 15, 2002, this loan was repaid in full.

Note 5. Long-Term Debt

- A. On July 1, 1987, Lawrence County Buildings Commission issued \$685,000 of bonds, payable semiannually on January 1 and July 1 of each year, beginning on January 1, 1998. The purpose of this bond issue was to finance construction of the Lawrence County Courthouse Annex. As of June 30, 2001, the principal balance was \$350,000. Bond Payments for the next five years are:

Fiscal Year Ending	Scheduled Interest	Scheduled Principal
June 30, 2002	\$ 23,925	\$ 40,000
June 30, 2003	21,025	40,000
June 30, 2004	17,762	50,000
June 30, 2005	14,137	50,000
June 30, 2006	10,512	50,000
Remaining	8,700	120,000
Totals	<u>\$ 96,061</u>	<u>\$ 350,000</u>

LAWRENCE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 5. Long-Term Debt (Continued)

- B. On November 1, 1998, Lawrence County Fiscal Court entered into an Assistance Agreement with the Kentucky Infrastructure Authority for the construction of sewer lines in the county. Terms of the agreement require principal and interest payments on June 1 and December 1 of each year. Principal and interest payments are to begin within one year from the completion of the sewer lines. The project is now complete and repayment of principal and interest will begin on December 1, 2001. As of June 30, 2001, the loan principal balance was \$710,852. The payment schedule below shows estimates of future bond requirements as of June 30, 2001.

<u>Fiscal Year Ending</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 12,662	\$ 29,820
June 30, 2003	12,123	30,359
June 30, 2004	11,574	30,908
June 30, 2005	11,015	31,466
June 30, 2006	10,446	32,035
Remaining	<u>80,954</u>	<u>556,264</u>
Totals	<u>\$ 138,774</u>	<u>\$ 710,852</u>

C. Lawrence County Industrial Building Revenue Bonds, Series 2000 A

On March 1, 2000, Lawrence County, Kentucky issued a single bond (Series 2000 A) in the amount of \$3,000,000 to assist in the financing, acquisition, construction, equipping, and installation of an industrial building, which will be used as a power plant (the project). Pursuant to the bond indenture, Lawrence County sold the bond to Lawrence County Riverside Trust 2000. The single bond has a maturity of March 2, 2025, with a fixed interest rate of 7% per annum payable each December 30, commencing December 30, 2001. The entire principal is payable at the maturity of the bond.

On March 10, 2000, Lawrence County entered into a lease agreement with Gene A. Wilson and Pauletta M. Wilson (the lessees) in which the lessees promise to provide specified rents, which will be sufficient to offset the principal and interest of the bond in order to satisfy the interest and principal requirements of the bond. Under the terms of the lease, the lessees subleased the project to Lawrence County Riverside Trust 2000 (purchaser of the bond). Lawrence County Riverside Trust 2000 will be responsible for developing the project.

Note 6. Lease-Purchase Agreements

Lawrence County entered into a lease agreement for the purchase of road equipment. The agreement required four annual payments of \$34,278. The final lease payment was made in October 2000. This lease has been satisfied in full.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Kentucky Area Development Districts Financing Trust Agreement - Capital Lease

On November 5, 1997, Lawrence County entered into a lease agreement with Kentucky Area Development Districts Financing Trust Program for road improvements. Terms of the agreement stipulate a ten-year repayment schedule with variable annual interest and principal payments. As of June 30, 2001, the principal balance was \$717,200. Lease payments for the next five years are:

<u>Fiscal Year Ending</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 43,331	\$ 92,600
June 30, 2003	37,462	98,500
June 30, 2004	31,222	104,600
June 30, 2005	24,592	111,300
June 30, 2006	17,538	118,400
Remaining	<u>12,090</u>	<u>191,800</u>
Totals	<u>\$ 166,235</u>	<u>\$ 717,200</u>

Note 8. Related Party Transactions

We note the following related party transactions for fiscal year 2001. We disclosed similar related party transactions in our prior year audit. The Lawrence County Ethics Committee has reviewed these transactions and determined that no wrongdoing exists.

- A. Commissioner and former County Judge/Executive Roger Jordan's brother-in-law, John Lemaster, was awarded contracts totaling \$4,770 for road repairs.
- B. Payroll Clerk and former County Treasurer Sue Maynard's brother, Jim Cyrus, was awarded contracts totaling \$26,465 for construction projects.
- C. Payroll Clerk and former County Treasurer Sue Maynard's son-in-law, Charles Allen Bradshaw, performed various repair projects for the county totaling \$45,607.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LAWRENCE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,653,218	\$ 1,439,269	\$ (1,213,949)
Road and Bridge Fund	1,705,210	1,387,162	(318,048)
Jail Fund	57,999	75,455	17,456
Local Government Economic Assistance Fund	1,431,944	739,545	(692,399)
Forestry Fund	5,400	6,004	604
<u>Special Revenue Fund Type</u>			
CDBG - Sewer Project Fund	151,445	151,993	548
CDBG - Economic Development Fund	37,500	41,409	3,909
E-911 Fund	146,000	162,496	16,496
Sewer Fees Fund	48,500	47,050	(1,450)
Cellular E-911 Fund		58,002	58,002
<u>Debt Service Fund Type</u>			
Voted Courthouse Annex Bond Fund		20	20
Totals	<u>\$ 6,237,216</u>	<u>\$ 4,108,405</u>	<u>\$ (2,128,811)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,237,216
Add: Budgeted Prior Year Surplus			1,030,988
Less: Other Financing Uses			<u>(735,035)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 6,533,169</u>

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SCHEDULE OF OPERATING REVENUE

LAWRENCE COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 810,331	\$ 650,975	\$ 159,356	\$
In Lieu Tax Payments	215,760	215,760		
Excess Fees	48,761	48,761		
Licenses and Permits	2,371	2,371		
Intergovernmental Revenues	2,833,068	2,661,798	171,270	
Charges for Services	84,260		84,260	
Miscellaneous Revenues	76,732	45,232	31,500	
Interest Earned	35,454	20,870	14,564	20
Total Operating Revenue	<u>\$ 4,106,737</u>	<u>\$ 3,645,767</u>	<u>\$ 460,950</u>	<u>\$ 20</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LAWRENCE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,563,072	\$ 817,973	\$ 745,099
Protection to Persons and Property	480,947	409,883	71,064
General Health and Sanitation	131,278	87,361	43,917
Social Services	3,185	3,185	
Recreation and Culture	461,025	117,150	343,875
Transportation Facilities and Services	17,527	17,527	
Roads	1,548,867	1,246,146	302,721
Debt Service	111,840	85,370	26,470
Capital Projects	800,000	434	799,566
Administration	488,983	462,123	26,860
Total Operating Budget - General Fund Type	\$ 5,606,724	\$ 3,247,152	\$ 2,359,572
Other Financing Uses:			
Transfers to Voted Courthouse			
Bond Fund-			
Principal	40,000	40,000	
Interest	26,952	26,823	129
Trustee Fees	1,743	1,743	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	579,240		579,240
Kentucky Area Development			
Districts Financing Trust	87,100	87,100	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 6,341,759	\$ 3,402,818	\$ 2,938,941

LAWRENCE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 432,500	\$ 100,232	\$ 332,268
Protection to Persons and Property	241,000	109,258	131,742
Debt Service	33,600	6,694	26,906
Capital Projects	219,345	173,474	45,871
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 926,445</u>	<u>\$ 389,658</u>	<u>\$ 536,787</u>

SCHEDULE OF OTHER EXPENDITURES

LAWRENCE COUNTY
SCHEDULE OF OTHER EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Voted Courthouse Annex Bond Fund</u>
Trustee Fees	<u>\$ 1,743</u>
Totals	<u><u>\$ 1,743</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David L. Compton, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Lawrence County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lawrence County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lawrence County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 21, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David L. Compton, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Lawrence County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Lawrence County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lawrence County's management. Our responsibility is to express an opinion on Lawrence County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lawrence County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lawrence County's compliance with those requirements.

In our opinion, Lawrence County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Lawrence County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lawrence County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 21, 2002

FINDINGS AND QUESTIONED COSTS

LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Lawrence County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Lawrence County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Lawrence County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Lawrence County reported in Part C of this schedule.
7. The program tested as a major program was the Community Development Block Grant - CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lawrence County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LAWRENCE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants-		
Sewer Project		
(CFDA #14.228)	B-94-DC-21-0001(065)	\$ 64,345
Disaster Recovery Initiative		
(CFDA #14.228)	98-097	<u>279,000</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 343,345</u>
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Lands		
(CFDA #15.252)	M-00118383	<u>\$ 28,309</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency		
Assistance Grants-		
Severe Weather		
(CFDA #83.544)	FEMA-DR-1320-KY	<u>\$ 11,465</u>

LAWRENCE COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2001
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Environmental Protection Agency</u>		
Passed-Through Kentucky Infrastructure Authority: Capitalization Grants for State Revolving Funds (CFDA #66.458)	A-97-02	<u>\$ 49,336</u>
<u>U.S. Department of Commerce</u>		
Passed-Through State Department for Local Government: Pride (CFDA #11.469)	Lawrence-CS00-24	<u>20,000</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 452,455</u></u>

LAWRENCE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LAWRENCE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

Appendix A

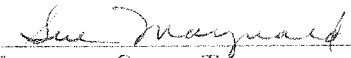
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LAWRENCE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Lawrence County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Lawrence County Judge/Executive



Lawrence County Treasurer